

**Level**

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1–2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3–5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6–8

**4. (a) Define the following terms indicated in bold in the text:**

**(i) exchange rate (paragraph ①)** *[2 marks]*

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is the price of a currency.	1
2	<i>Precise definition</i> An explanation that it is the price or value of one currency expressed in terms of another.	2

**(ii) interest rates (paragraph ③).** *[2 marks]*

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is money received.	1
2	<i>Precise definition</i> An explanation that they are the price of money, <b>or</b> <ul style="list-style-type: none"> <li>• the price of borrowed money, <b>or</b></li> <li>• the price of credit, <b>or</b></li> <li>• the reward for saving/lending money.</li> </ul>	2

- (b) Using an appropriate diagram, explain how Thailand’s central bank might intervene to lower the value of the Thai baht. [4 marks]

level

- |   |  |     |
|---|--|-----|
| 0 | Inappropriate answer   | 0   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a diagram to show the supply of Thai baht shifting to the right, causing a lower exchange rate, <b>or</b> an explanation that intervention by Thailand’s central bank to sell Thai baht (or to buy foreign reserves) on the foreign exchange market will increase supply of the currency, causing the currency to depreciate.       | 1–2 |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a diagram to show the supply of Thai baht shifting to the right, causing a lower exchange rate, <b>and</b> an explanation that intervention by Thailand’s central bank to sell Thai baht (or to buy foreign reserves) on the foreign exchange market will increase supply of the currency, causing the currency to depreciate. | 3–4 |

**N.B.** The following approaches, if properly drawn and explained, may be rewarded with full marks:

- the Thai central bank could lower interest rates causing either an increase in the supply of the currency as savers move their savings elsewhere, **or** a decrease in demand as saving in Thai banks provides a lower return to savers, and thus reducing the demand for the Thai baht
- the central bank could “talk down” the value of the Thai baht, causing either an increase in supply or decrease in demand as speculators fear that it will lose its value.

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

The vertical axis may be exchange rate, price of Thai baht in dollars, price of Thai baht in other currencies, \$, USD, **but not** simply “price” or “P”. The horizontal axis should be quantity, or quantity of baht.

- (c) **With the aid of an AD/AS diagram, explain the likely effect on the Thai economy of a further cut in interest rates (*paragraph 3*).** [4 marks]

level

- |   |   |     |
|---|---|-----|
| 0 | <i>Inappropriate answer</i>   | 0   |
| 1 | <p><i>Identification of appropriate theory</i></p> <p>For drawing an AD/AS diagram to show an increase in AD, causing an increase in real GDP (real output, national income) <b>or</b> an explanation that a fall in interest rates may result in an increase in consumption (and/or investment) and therefore an increase in AD and an increase in real GDP. The effect on the price level depends on the AS that is drawn. If a short run aggregate supply curve is drawn, candidates should say that there is an increase in the price level. If a Keynesian AS curve is drawn with an increase in AD remaining in the horizontal region then the price level will not change.</p>       | 1–2 |
| 2 | <p><i>Correct application of appropriate theory</i></p> <p>For drawing an AD/AS diagram to show an increase in AD, causing an increase in real GDP (real output, national income) <b>and</b> an explanation that a fall in interest rates may result in an increase in consumption (and/or investment) and therefore an increase in AD and an increase in real GDP. The effect on the price level depends on the AS that is drawn. If a short run aggregate supply curve is drawn, candidates should say that there is an increase in the price level. If a Keynesian AS curve is drawn with an increase in AD remaining in the horizontal region then the price level will not change.</p> | 3–4 |

**OR**

- |   |  |     |
|---|--|-----|
| 1 | <p><i>Identification of appropriate theory</i></p> <p>For drawing an AD/AS diagram to show an increase in AD, causing an increase in real GDP (real output, national income) <b>or</b> an explanation that a fall in interest rates may result in a fall in the value of the Thai baht and therefore an increase in net exports. The effect on the price level depends on the AS that is drawn. If a short run aggregate supply curve is drawn, candidates should say that there is an increase in the price level. If a Keynesian AS curve is drawn with an increase in AD remaining in the horizontal region then the price level will not change.</p>       | 1–2 |
| 2 | <p><i>Correct application of appropriate theory</i></p> <p>For drawing an AD/AS diagram to show an increase in AD, causing an increase in real GDP (real output, national income) <b>and</b> an explanation that a fall in interest rates may result in a fall in the value of the Thai baht and therefore an increase in net exports. The effect on the price level depends on the AS that is drawn. If a short run aggregate supply curve is drawn, candidates should say that there is an increase in the price level. If a Keynesian AS curve is drawn with an increase in AD remaining in the horizontal region then the price level will not change.</p> | 3–4 |

**N.B.** An alternative approach may be to consider the effects of a decrease in interest rates on AS. A fall in interest rates may result in a decrease in the costs of production to firms, and thus an increase in SRAS. A fall in interest rates leading to an increase in investment can be seen to increase the quantity of capital in the economy, and thus shift out the LRAS. If appropriately explained and illustrated, then full marks may be rewarded.

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

The vertical axis may be price level, average price level or inflation. The horizontal axis may be output, real output, national output, real national output, national income (Y) or GDP.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the view that Thailand's central bank should intervene in the foreign exchange market in order to weaken the Thai baht.**

**[8 marks]**

Responses **may** include:

- the economy has stagnated and so exporters need help. Exports have fallen 26.1 % (*paragraph 4*)
- a discussion of the benefits of a lower value of the currency including, the support for the “the struggling export sector” (*paragraph 3*)
- although a lower value of a currency can be inflationary, this does not seem to be a problem in Thailand given that the economy is shrinking (*paragraph 4*)
- a lower value of the currency will be damaging to consumers of imported goods, and will raise costs of imported factors of production
- the J-curve and the Marshall-Lerner condition suggests that currency depreciation takes time to contribute to an improvement in export revenues
- even if the central bank does intervene, the lower value of the currency may not have the desired effect of stimulating exports due to possible inelastic demand
- it may be argued that currencies should be left to market forces
- active intervention by the central bank might invite retaliation and competitive devaluation and/or trade protection
- interest rates may continue to fall (*paragraph 3*) so there is no need for the government to intervene
- supply-side policies intended to increase efficiency and flexibility may be preferable to exchange rate manipulation.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

Examiners should be aware that candidates may take a different approach which if appropriate, should be rewarded.

If there is no direct reference to the text/data, then candidates may not be rewarded beyond level 2.

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**5. (a) Define the following terms indicated in bold in the text:**

**(i) economic growth (paragraph ③) [2 marks]**

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that there is a growth in GDP.	1
2	<i>Precise definition</i> An explanation that it is the growth of real output (real GDP) in an economy over time.	2

**(ii) investment (paragraph ⑤). [2 marks]**

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is spending by firms.	1
2	<i>Precise definition</i> An explanation that it is: <ul style="list-style-type: none"> <li>• the spending on capital, <b>or</b></li> <li>• the addition of capital stock to the economy, <b>or</b></li> <li>• the spending on health or education to improve human capital.</li> </ul>	2